

Wisconsin Economic Outlook

Winter 2011

AT A GLANCE

The Wisconsin economy grew in 2010:

- Personal income has increased four consecutive quarters through third quarter 2010.
- During the past year, Wisconsin recovered 32,600 jobs from December 2009 through December 2010.
- Nearly half of Wisconsin employment is in the three largest sectors (1) Trade Transportation and Utilities, (2) Manufacturing and (3) Education and Health Services.
- The housing sector still shows some mixed signals, but it seems to be near its bottom. Foreclosure and delinquency rates are improving.
- The unemployment rate in Wisconsin stayed below the national rate through the recent recession and will continue doing so. The unemployment rate should fall to 7.3% in 2011 and 6.7% in 2012.

SUMMARY

The Wisconsin economy grew in 2010. Employment increased 32,600 December 2010 over December 2009. Personal income has increased four consecutive quarters through third quarter 2010. The labor market has lagged the recovery in 2010, but should gain momentum due to the improvement in domestic demand. Wisconsin employment should grow 1.3% in 2011 and 1.9% in 2012.

NATIONAL OVERVIEW

IHS Global Insight forecasts an increase of 3.2% of real GDP in 2011, after 2.9% growth in 2010. Inventory accumulation accounts for almost half of the real GDP growth in 2010. IHS Global Insight anticipates that 2011 growth will come from stronger final domestic demand, business spending and net exports. It forecasts consumer spending growth of 3.2% in 2011, up from 1.8% in 2010. Though better than 2010, this is still a moderate consumer rebound by historical standards, due to a still weak employment market, high debt levels, weak housing market, and tight credit markets.

Businesses are flush with cash and will probably start to implement investment plans postponed due to the recession. Business spending should return to double-digit growth in 2011 after a weak fourth quarter in 2010. IHS Global Insight's forecast expects foreign trade to become a contributor to GDP growth due to strong economic growth in emerging markets and a highly competitive dollar that will propel U.S. exports. On the other hand, import growth will moderate because inventories returned to normal levels in 2010.

The Housing sector continues to be a downside risk in 2011, with house prices declining in the second half of 2010 and expected to decline another 5% in 2011.

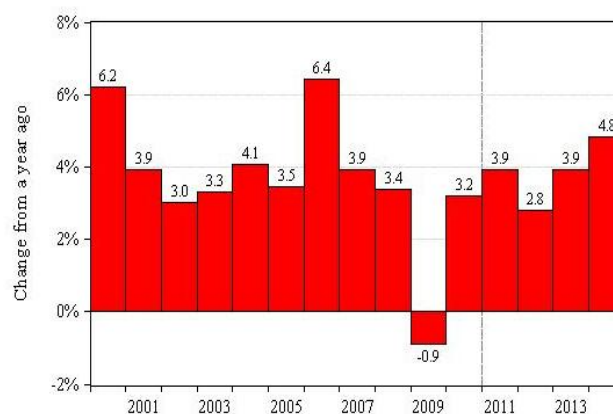
Inflation will stay very low through 2013. Despite the increase in commodity prices, IHS Global Insight expects CPI to grow 1.9% in 2011 and 1.9% in 2012, helped by weakening core inflation and negligible wage inflation.

WISCONSIN OVERVIEW

Wisconsin employment declined 4.5% in 2009 and 0.8% in 2010. Wisconsin started to modestly add jobs in January 2010, but the gains were not enough to lift total annual employment above 2009. Wisconsin employment will grow between 1% and 2% per year between 2011 and 2014.

Wisconsin personal income declined 0.9% in 2009 but posted year-over-year gains in the first three quarters of 2010. The forecast anticipates an increase of 3.2% in 2010 and 3.9% in 2011.

Wisconsin Personal Income Growth



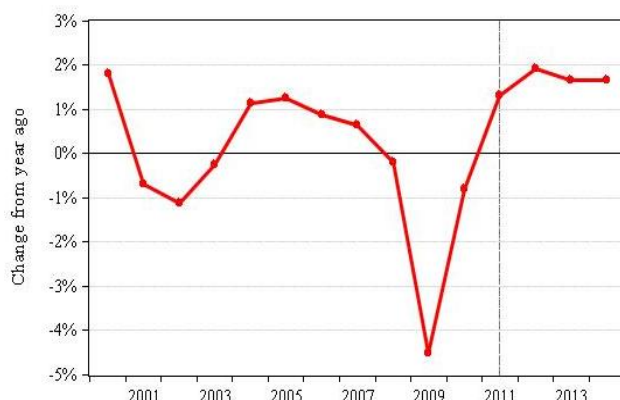
EMPLOYMENT

The Wisconsin economy returned to post year-over-year growth rates in the second half of 2010 and will continue this trend.

During the past year, Wisconsin recovered 32,600 jobs from December 2009 through December 2010. This is 16.8% of the total number of jobs lost (194,100) between January of 2008 and December of 2009. However, it will take until early 2014 to reach the pre-recessionary level of employment.

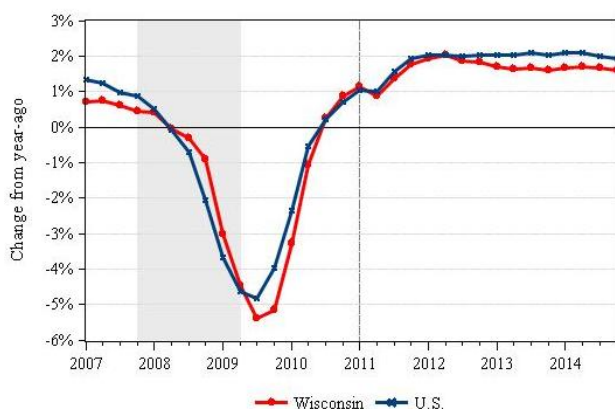
The forecast calls for growth of 1.3% in 2011 and 1.9% in 2012, slightly below the U.S. forecast of 1.4% and 2.0% growth, respectively.

Wisconsin Employment Growth



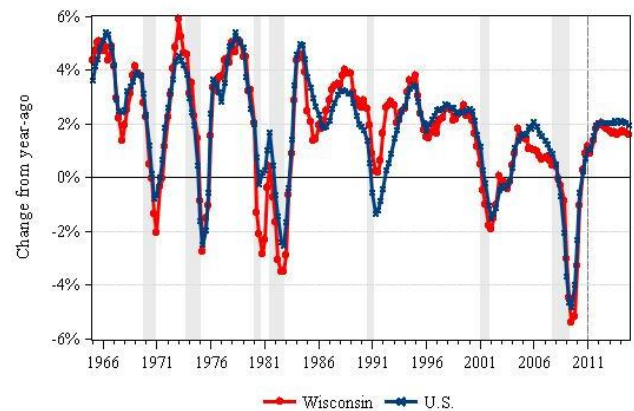
The chart below shows total nonfarm employment growth for the U.S. and Wisconsin – the vertical line at the first quarter of 2011 separates history from forecast. Wisconsin employment in 2010 was 0.8% (22,600 jobs) below 2009 employment on an annual basis.

Employment Returned to Year-Over-Year Growth in 2010, After Nine Quarters of Declines



Nine out of the ten private sectors posted job losses in 2009, while seven of those sectors also posted losses in 2010. However, most of the jobs lost in 2009 and 2010 came from the two largest sectors in terms of share of total employment: Manufacturing and Trade, Transportation and Utilities.

Declines During the Past Recession Resulted in the Largest Job Losses of the Last 50 Years



The chart above shows total nonfarm employment growth for the U.S. and Wisconsin over time, with the shaded areas marking the national recessions as dated by the National Bureau of Economic Research.

Both national and Wisconsin employment declined for seven straight quarters from its peak in the first quarter of 2008 through its trough in the fourth quarter of 2009. National employment fell 6.0%, while Wisconsin employment declined 6.3%. In both cases, the loss of jobs during this recession surpassed any single recession in the last 50 years.

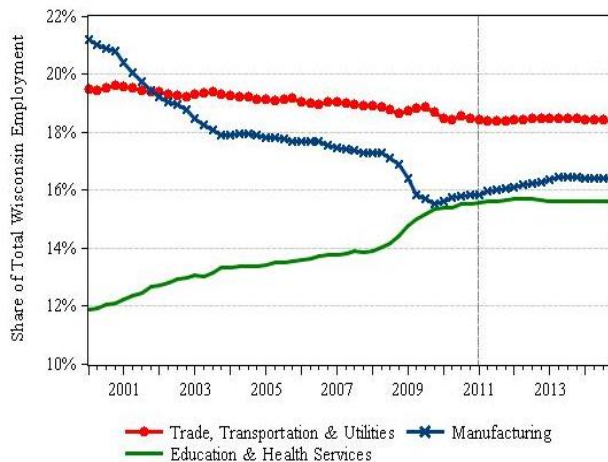
The next state employment release from Bureau of Labor Statistics (BLS) will publish the annual benchmark revision to state employment estimates. This process revises the Current Employment Estimates from September 2009 to incorporate more comprehensive employment data collected through the unemployment insurance reports to state agencies.

We anticipate an upward revision to Wisconsin total employment estimates that will reduce the total number of jobs lost during the recession. However, the loss of jobs in this recession will continue to be the largest in the past half century.

Employment Sectors

Nearly half of Wisconsin employment is in the three largest sectors: (1) Trade Transportation and Utilities, (2) Manufacturing, and (3) Education and Health Services.

The Three Sectors Account for Almost Half of Total Wisconsin Employment



The first two sectors saw their share of total employment decline in the last decade, while Education and Health Services increased its share from 12.0% in 2000 to 15.5% 2010.

The job losses in the Manufacturing sector during the 2001 recession cost the sector its first place as employer in the state, leaving that title to the Trade, Transportation and Utilities sector. This same shift happened at the national level in 1981, but the strong Wisconsin Manufacturing business sector was able to hold to its first place until 2002.

After the 2001 recession, employment in the Manufacturing sector peaked in the second quarter of 2006. In the 2007-09 recession declined until the last quarter of 2009. The recent recession left the Manufacturing share of total employment almost equal to the share of Education and Health Services sector by the end of 2009, at around 16% of total employment.

As Manufacturing employment recovers, it will retain its second place as largest employer in Wisconsin.

The **Trade, Transportation and Utilities** sector posted very weak growth during the last business cycle expansion, adding just 10,700 jobs in four years between 2003 and 2007. The recent recession yielded the loss of 47,100 jobs

from its peak in the first quarter of 2007 through its trough in the first quarter of 2010.

In early 2010, the sector's employment fell to the same level as 15 years ago in early 1995. The retail subsector accounts for almost 60% of the sector's employment. This was the hardest hit of the three subsectors in the recent recession, losing almost 30,000 jobs from its peak in early 2004 and falling to levels not seen since early 1994.

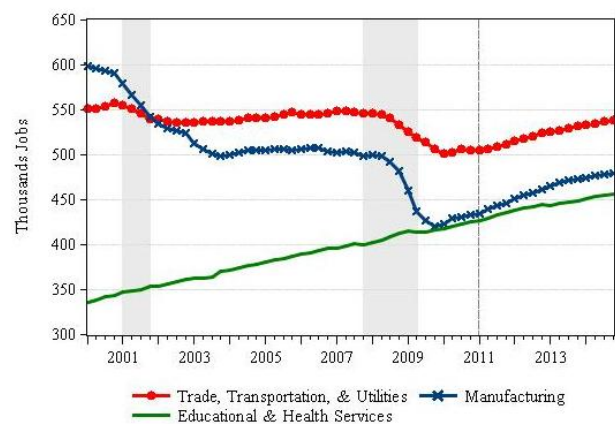
The Wholesale subsector accounts for just above 20% of the sector's employment and started to post job losses as late as early 2008 but it is still losing jobs.

Finally, the Transportation and Utilities subsector which accounts for the remaining 20% of the sector, has been losing jobs since early 2008 and has not yet bottomed out.

The forecast calls for an employment increase of 0.8% in 2011 after three years of job losses in this sector. It will grow stronger in the following years posting growth rates of 2.3% in 2012 and 1.7% in 2013.

The Trade, Transportation and Utilities sector will not recover its pre-recession employment level during the forecast period, but it will retain its place as Wisconsin's largest employment sector as shown.

The Three Largest Sectors Will Add More Than 25,000 Jobs in 2011



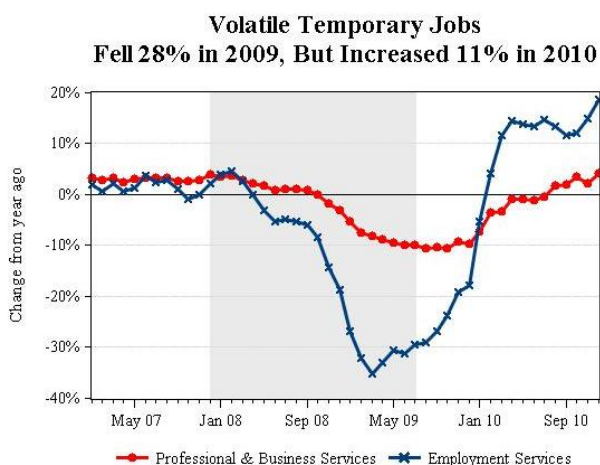
Since January 2010, the **Manufacturing** sector has recovered 12,700 jobs on a quarterly basis due to job gains in the Durable Goods subsector. The forecast expects strong manufacturing employment growth in the next three years: 2.7% in 2011, 3.4% in 2012, and 3.0% in 2013. At the end of 2013, employment in this sector will still be almost 7% below its 2006 peak.

The **Education and Health Services** sector was the only private sector not to fall during the recession, helped by the dominating Health Care and Social Assistance subsector. This subsector accounts for 88% of the sector's employment, and was the one to keep employment growing in this sector during the current recession.

The Educational services subsector accounts for the other 12% of the sector's employment. Jobs in the private education industry declined slightly in 2007 and 2008, but these losses were largely offset by job gains in the health subsector.

The forecast calls for two years of strong annual employment growth of 2.3% in the Education and Health Services sector.

The **Professional and Business Services** sector lost 36,000 jobs from peak to trough. This sector includes the volatile Employment Services subsector which lost 36% of its jobs from its peak in early 2008 to its trough in early 2009 as shown below.



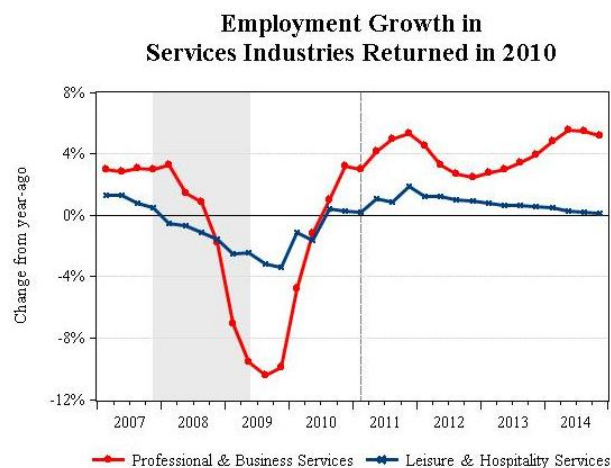
The Employment Services subsector is very cyclical. Employers tend to initially adjust their workforce through hiring or firing temporary help during cycles. This subsector bottomed out in early 2009, while most other sectors started to post their worst job losses of the current cycle.

The forecast calls for a strong recovery of the Professional and Business Services sector during 2011. The sector should reach its pre-recession employment level by 2013. The forecast calls for employment growth of 4.4% in 2011 and 3.2% in 2012.

This extraordinary growth is largely explained by the strong increase of temporary jobs in the initial phase of the recovery. Strong growth in the Professional and Business Services sector will continue throughout the rest of the forecast period.

The **Leisure and Hospitality** sector lost 12,900 jobs or 4.9% of its employment during the recession. This was due to the decline in consumers' discretionary spending caused by falling household wealth, rising unemployment and tight credit conditions.

Employment in the Leisure and Hospitality sector will increase 1.0% in 2011, after three years of job losses. Job gains in the sector will moderate as the recovery matures, as shown below. The forecast calls for growth rates of 1.1% in 2012 and 0.7% in 2013.



Employment in the **Financial Activities** sector fell 2.4% in 2009 and 2.8% in 2010. It continues to shed jobs. Financial Activities employment will fall another 0.8% in 2011.

The forecast expects this sector to start adding jobs in mid 2011, returning to positive growth (1.3%) by 2012.

The **Other Services** sector lost jobs in 2009 but was flat in 2010. This sector accounts for 5.0% of Wisconsin jobs. The forecast calls for strong growth of 1.9% in 2011 in this sector, followed by moderate growth rates of 0.8% in the next two years.

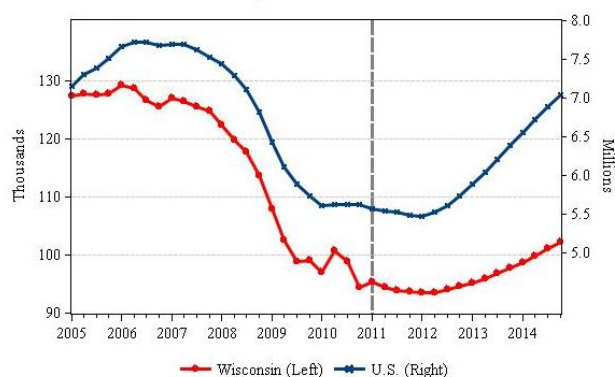
Wisconsin employment in the **Construction** sector stagnated in 2004 as housing permits started to fall.

Wisconsin Construction employment began posting negative year-over-year growth in the third quarter of 2006 and declined 1.2% in 2007, 6.0% in 2008, 13.8% in 2009, and 4.3% in 2010.

Construction employment peaked in the first quarter of 2006 at 129,100 jobs and lost 34,800 jobs through the fourth quarter of 2010 or 27.0%. This means that more than one out of four construction workers lost their job in the past four years. The sector continues to shed jobs.

The outlook for Wisconsin Construction employment calls for two more years of moderate job losses. Construction employment is expected to decline 3.4% in 2011 and 0.5% in 2012. After the mild start, Construction employment will post strong growth of 2.6% and 4.3% in 2013 and 2014, respectively.

Construction Employment Will Continue Posting Small Declines Until 2012



The Information and Natural Resources and Mining sectors are the smallest sectors in terms of employment in Wisconsin and nationwide.

Employment in the **Information** sector has not yet reached its bottom and has been losing jobs through the last quarter of 2010. But the forecast expects this trend to be reversed in early 2011 and calls for a 1.1% growth in 2011 and 2.5% in 2012.

The **Natural Resources and Mining** sector is also expected to post job gains starting in 2011.

The **Government** sector, jointly with **Education and Health Services**, was one of the only two sectors that grew in 2010, advancing 0.4% helped by the temporary employment growth due to Census activity.

The outlook calls for a 0.5% decline in 2011 with losses at the Federal and State and Local Government levels. The weak fiscal position of state and local governments will produce subpar government employment growth in 2012 (0.3%) and the next two years.

UNEMPLOYMENT

The Wisconsin seasonally adjusted **unemployment rate** rose from 4.3% in the first quarter of 2008 to 8.8% in mid 2009, but retreated to 7.6% by the end of 2010.

The unemployment rate in Wisconsin stayed below the national rate through the recent recession and is expected to continue doing so.

The forecast calls for an unemployment rate of 7.3% in 2011 and 6.7% in 2012. By the end of the forecast period, the Wisconsin unemployment rate will be 5.3%, still higher than its pre-recession level, but lower than the 7.3% national unemployment rate.

The unemployment rate in Wisconsin stayed below the national rate through the recent recession and will continue doing so.

The BLS releases alternative measures of labor underutilization for states. The most inclusive of these measures is the so called **U-6 rate**, which measures the total unemployed, plus all marginally attached workersⁱ and workers working part-time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers.

This measure adjusts for the distortion of a decline of the unemployment rate due to people leaving the labor force. BLS publishes this alternative measure for the states on annual averages. The Wisconsin U-6 rate for 2010 was 14.8% compare to 16.7% nationwide.

HOUSING

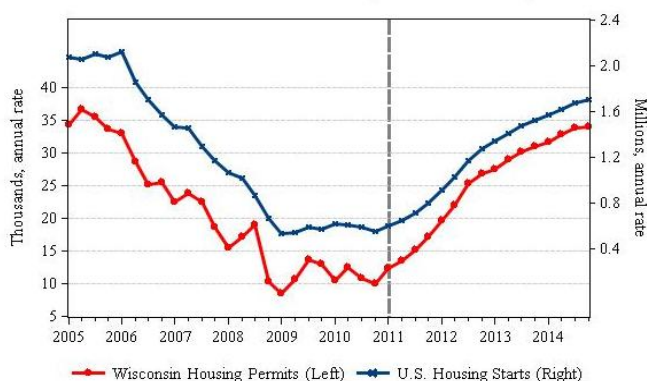
The housing sector still shows some mixed signals, but it seems to be near its bottom.

IHS Global Insight forecast a mild recovery in terms of housing starts, but expects home prices to decline another 5%.

National sales of existing homes declined 4.7% in 2010, reflecting the end of the federal homebuyers' tax credit. The credit was available for home purchases in January 2009 through April 2010, thereby pushing sales into 2009 and the first half of 2010.

Once the credit expired, Wisconsin existing home sales and housing building permits declined, resulting in a decline for the year as a whole. Foreclosure and delinquency rates are improving.

**Housing Permit and Starts Decline in Late 2010
After the Federal Homebuyer Credit Expired**



According to the Wisconsin Realtors Association (WRA), final 2010 **existing home sales** were 7.5% below 2009, but prices fell. The median home price was \$141,000, just 1.1% below the previous year.

The report indicates that all but the north Wisconsin region experienced a drop in home sales. An unusual number of sales took place in the first half of the year due to the extension of the federal homebuyer tax credit program.

According to the WRA report, the inventory on the market also dropped for the second straight month, falling in December to a 13.8-month supply.

The Federal Housing Finance Agency (FHFA) releases a different measure of **home prices**. According to their Purchase-Only House Price Index, home prices in Wisconsin started to fall in mid 2007, though not as hard as in other parts of the country.

The Wisconsin Purchase-Only House Price Index fell 2.3% year-over-year in the third quarter of 2010, less than the 3.1% decline nationwide.

Wisconsin building permits have been declining since their peak at 42,700 in the last quarter of 2003. Permits fell again in the last quarter of 2010 to the third lowest level in the last 50 years (9,900 permits).

Housing activity will pick up again in 2011. The forecast calls for a strong recovery in 2011, but the level of permits will still be just 35% of its 2003 peak levels. In 2012, Wisconsin permits should reach 24,300.

Several significant risks to the recovery of the housing sector are easing. Foreclosures and mortgage delinquencies are recently moderating.

RealtyTrac released January **foreclosure** data for the U.S. showing a 1% increase from the previous month, but 17% lower than January 2010 activity. Five states accounted for more than 50% of the national total, with California alone accounting for 25% of the total number of foreclosures in January.

Wisconsin ranks 14th in the nation, with one out of 577 households in foreclosure in January 2011. This compares to one out of every 497 households in foreclosure nationwide and one out of every 93 households in foreclosure in Nevada, which leads the ranking.

The Mortgage Bankers Association of America reported a decline in **delinquencies** to pre-recession levels by the end of 2010. The delinquency rate for mortgage loans on one-to-four-unit residential properties declined to a seasonally adjusted rate of 8.2% of all loans outstanding as of the fourth quarter of 2010. This is a decrease of 91 basis points from the third quarter of 2010, and a decrease of 125 basis points from one year ago. The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure.

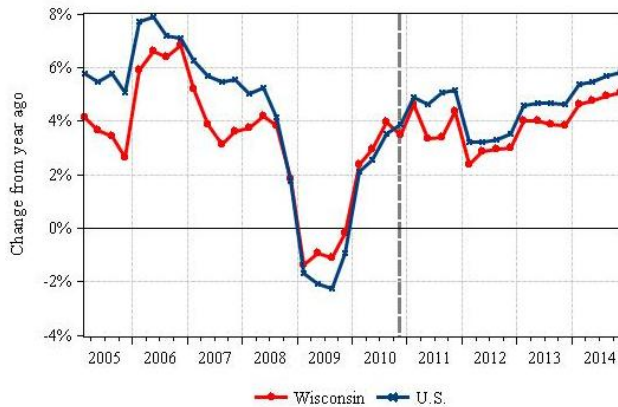
Real estate transfer fee collections reflect the pulse of the Wisconsin real estate. The fee is imposed on all real estate conveyances at a rate of \$0.30 per \$100 of value.

Collections peaked in 2005 at \$80.2 million and have been declining since. Collections fell 24.8% in 2008, 22.7% in 2009, and 3.5% in 2010 to \$38.7 million in 2010. The 2010 growth rate reflects the impact of the one-time homebuyer's tax credit that expired in mid 2010.

INCOME OUTLOOK

After falling for the first time in 50 years during 2009, Wisconsin personal income resumed growth in 2010.

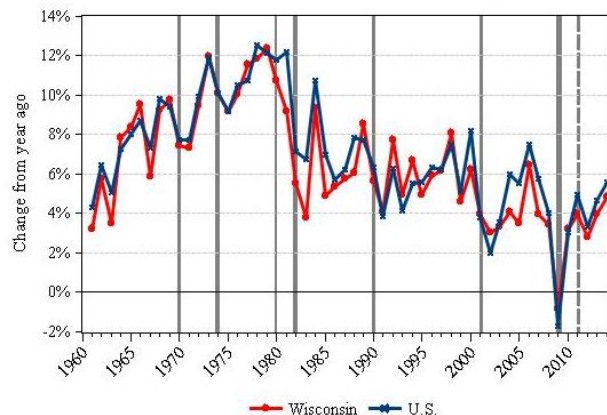
Personal Income Resumed Growth in 2010



Wisconsin posted year-over-year growth of 4.0% in the third quarters of 2010, compare to 3.6% nationally.

The forecast expects a final annual growth of 3.2% in 2010 compared to 3.0% nationwide. The outlook then calls for Wisconsin personal income to grow 3.9% in 2012 and 2.8% in 2012, somewhat below the forecasted growth of national personal income. This is lower growth compared to previous recoveries as noted below.

Nominal Personal Income Fell for the First Time in 50 Years During 2009



When considering the impact of inflation, real personal income was flat in 2008 and fell 1.1% in 2009. Inflation, as measure by the personal consumption expenditures price index in 2010 advanced 1.7%. The slow recovery will keep inflation low the following years.

IHS Global Insight expects the personal consumption expenditures price index to increase 1.3% in 2011 and 1.6% in 2012, and the growth pace will stay below 2% through 2014.

Wisconsin real personal income will then grow 2.6% in 2011 and 1.2% in 2012, compared to 3.6 and 1.7% increases nationwide, respectively.

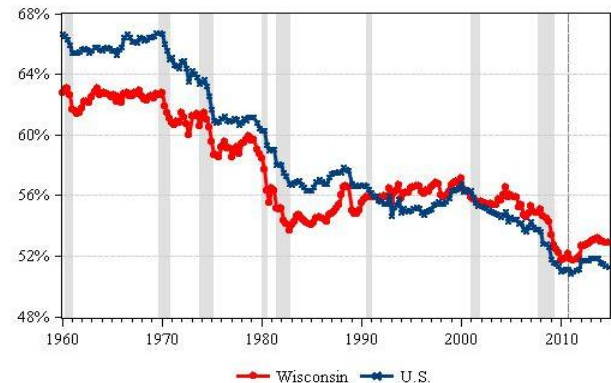
Personal Income Components

Wisconsin and U.S. nominal wages and salaries declined in 2009 as a result of drastic employment losses and the lowest wage inflation in the last 50 years.

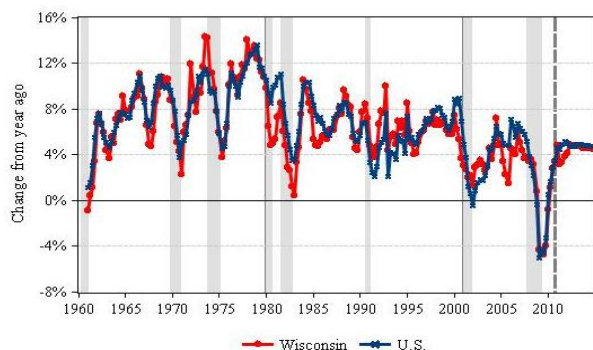
Wisconsin wages and salaries fell 4.4% in 2009, slightly faster than the U.S. decline of 4.3%. Wages and salaries account for more than half of total personal income. Wisconsin wages and salaries fell 5.2% from its peak in the first quarter of 2008 to its trough in the first quarter of 2010.

The chart below shows the long-term declining trend of the wages and salaries share of total personal income and its exacerbation with each recession. In the recent recession, wages fell for eight straight quarters in Wisconsin. Its share of total personal income fell from 56% in 2004 to less than 52% in 2010.

The Share of Wages and Salaries in Total Personal Income Fell With Each Recession



Wages Fell in 2009 for the First Time in 50 Years, But Growth Resumed in 2010



Wisconsin **wages and salaries** resumed year-over-year growth in the second quarter of 2010 and should continue growing as the recovery firms.

Wages and salaries should post an annual increase of 1.6% in 2010. With employment back on a growth path, wages and salaries will accelerate to a 3.8% growth in 2011 and 4.6% growth in 2012.

When adjusted for inflation, real wages and salaries also declined in 2008 in Wisconsin and nationwide. Wisconsin real wages and salaries declined 0.6% in 2008 and 4.5% in 2009, compared to declines of 1.1% and 4.5%, respectively, nationwide.

After the increase of 1.7% of the personal consumption expenditures price index in 2010, real wages were flat. The outlook expects real wages and salaries to grow 2.5% in 2011 and 3.0% in 2012.

Supplements to wages and salariesⁱⁱ grew 1.2% in 2009 and are expected to post an annual growth rate of 3.3% in 2010. The forecast calls for sustained growth beyond 2010, growing at 3.4% in 2011 and above 4.0% for 2012 and beyond.

Proprietors' income declined 14.9% in 2009, but resumed strong growth in 2010. Proprietors' income posted double-digit year-over-year gains in the second and third quarters of 2010.

The forecast calls for strong growth in 2010 and 2011 at 12.0% and 7.8%, respectively. It will return to normal growth rates the next years, posting 4.1% in 2012.

Rental income climbed 54.6% in 2008 and 20.8% in 2009ⁱⁱⁱ after three years of declines. It is forecast to grow

11.5% in 2010 and 4.5% in 2011, after which it will decline again throughout 2014.

Dividend income fell 1.3% in 2008 and 12.5% in 2009. The forecast expects it to grow moderately in 2010 before resuming more robust growth in 2011 at 7.1%.

Interest income fell 6.3% in 2009; this decline is largely due to the Federal Reserve's policy of easing interest rates in response to the economic crisis.

The forecast calls for another decline of 3.0% and 1.0% in 2010 and 2011 given that the Fed is not expected to increase rates until 2012. Personal interest income will resume growth then, posting growth rates of 4.9% in 2012 and 9.5% in 2013.

Personal current transfer receipts jumped in 2009 as expected considering the magnitude of the current recession and the significant increase in unemployment.

This component of personal income consists largely of payments to individuals and to nonprofit institutions by federal, state, and local governments. Social security payments and Medicare account for more than 60% of Wisconsin personal current transfers.

Following the national trend, Wisconsin personal current transfer receipts increased 21.7% in 2009 and will increase another 6.6% in 2010 during the initial phase of the recovery. The forecast then expects transfer receipts to grow at moderate rates for the next three years.

Related Income Measures

Wisconsin **disposable personal income** (total after-tax income received by persons available for spending or saving) increased 1.8% in 2009, better than personal income. This was due to the 20.7% decline in personal tax under the federal fiscal recovery package.

Personal tax payments will decline again in 2010 for the same reasons, yielding a strong 4.0% growth of Wisconsin disposable income in 2010. The forecast expects Wisconsin disposable personal income to grow 3.8% in 2011 and 2.5% in 2012.

State Gross Domestic Product (GDP) data is released on an annual basis. The latest data show that Wisconsin real GDP fell 2.1% in 2009, below the 2.6% decline of national real GDP. The forecast expects a 2.6% increase in real Wisconsin GDP in 2010 and 2.9% in 2011.

The Wisconsin Economic Outlook is a quarterly publication of the
Wisconsin Department of Revenue - Division of Research & Policy.

This forecast is based on the January national outlook from IHS Global Insight.

Questions:

doreconomists@revenue.wi.gov

Wisconsin Department of Revenue
2135 Rimrock Road • Madison, WI 53713
www.revenue.wi.gov

ⁱ Marginally attached workers (Current Population Survey): Persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached.

ⁱⁱ This component of personal income consists of employer contributions for employee pension and insurance funds and employer contributions for government social insurance.

ⁱⁱⁱ Actual rental, personal dividend and personal interest income components for 2010 will be available from BEA by March 2011.

Background: U.S. Economy
IHS Global Insight, Inc (January 2011)

GDP	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP (\$ Billions, 2005 Dollars)	13,229.0	13,229.0	12,881.0	13,253.0	13,673.0	14,065.0	14,500.0	14,980.0
% Change	2.0	0.0	-2.6	2.9	3.2	2.9	3.1	3.3
GDP (\$ Billions, Current Dollars)	14,062.0	14,369.0	14,119.0	14,662.0	15,299.0	15,932.0	16,679.0	17,555.0
% Change	5.0	2.2	-1.7	3.8	4.4	4.1	4.7	5.3
Employment and Prices								
Payroll Employment (Thousands)	137.6	136.8	130.9	130.3	132.1	134.7	137.5	140.3
% Change	1.1	-0.6	-4.3	-0.5	1.4	2.0	2.1	2.0
Unemployment Rate (%)	4.6	5.8	9.3	9.7	9.3	8.7	8.1	7.3
Consumer Price Index (% Change)	2.9	3.8	-0.3	1.7	1.6	1.9	2.0	2.2
Employment Cost Index (% Change)	3.1	2.9	1.5	1.9	2.1	2.1	2.3	2.7
Industrial Production (% Change)	2.7	-3.3	-9.2	5.6	3.8	3.4	4.0	3.9
Retail Gasoline Prices (incl. Taxes, \$/gallon)	2.85	3.32	2.40	2.84	3.08	3.26	3.38	3.48
Financial Markets								
Three Month Treasury Bills (%)	4.7	4.4	1.4	0.2	0.1	0.3	1.4	3.4
30-year Mortgage Rate (%)	6.6	6.5	6.2	5.1	4.9	5.1	5.2	6.2
Income and Profits								
Personal Income (\$ Billions)	11,912.0	12,391.0	12,175.0	12,543.0	13,162.0	13,598.0	14,229.0	15,024.0
% Change	5.7	4.0	-1.7	3.0	4.9	3.3	4.6	5.6
Wages & Salaries (\$ Billions)	6,421.7	6,559.1	6,274.1	6,405.6	6,710.9	7,033.6	7,376.0	7,726.0
% Change	5.8	2.2	-4.3	2.1	4.8	4.8	4.9	4.8
Corporate Profits, Before Tax (\$ Billions)	1,510.7	1,262.8	1,258.0	1,617.4	1,646.8	1,659.7	1,704.2	1,791.7
% Change	-6.0	-16.5	2.5	29.3	1.9	0.8	2.7	5.1

- The outlook for the US economy has improved, with the recovery reaching a level of sustainability. Growth is no longer dependent on government stimulus and inventory rebuilding. Consumer spending has improved, and businesses are once again investing in equipment and software.
- The economy, as measured by real GDP, increased at a rate of 3.2% in the fourth quarter of 2010. Inflation remains subdued, and although businesses and consumers are more confident, hiring continues to lag.
- The other weak sector in the economy is housing. Prices are expected to fall again in 2011. However, as hiring picks up towards the end of 2011 and into 2012, the housing market will show signs of improvement.
- Key assumptions of IHS Global Insight's January 2011 forecast:
 - Federal government spending will be relatively flat in 2011, and will decline 1.2% in 2012.
 - The Federal Reserve will not increase interest rates until 2012, and continues with its purchase of Treasury securities.
 - Oil prices will average \$88/barrel in 2011 and \$95/barrel in 2012.
 - The dollar continues its long-term downward trend, supporting export growth. The dollar will fall more against emerging market currencies than against the major currencies.
 - Global growth will be slower in 2011. The U.S. major-currency trading partners will see growth of 1.9% in 2011, down from 2.6% in 2010.

Year-to-Date Revenue Collections

During the first seven months of fiscal year 2011 (FY11), Wisconsin General Purpose Revenue (GPR) tax collections increased 7.0% to \$7,284.3 million. Adjusting for late postings in withholding in January of last year, revenues increased 4.9%.

To reach the Legislative Fiscal Bureau's (LFB) January 31, 2011 revenue estimates, total GPR increases must average 4.2% for the remainder of the year.

Individual income tax collections during July-January of FY11 increased 8.5% to \$4,100.8 million. After including the late postings in withholding of last year, collections increased 4.7%. Withholding collections, the largest component of individual income tax collections, were up 8.6% or up 4.3% after adjusting for the late posting. Estimated payments increased 4.3% through the first seven months of FY11.

Sales tax collections increased 5.8% to \$2,123.1 million. However, last year saw a surge in sales tax refunds due to the Menasha court decision.¹ Excluding refunds, sales tax revenues increased 5.0% over FY10. The previous two fiscal years have seen sales tax revenue declines of 4.3% and 3.4%. Despite the recent growth in sales tax revenues, collections are below the January year-to-date level of five years ago.

Corporate income tax collections increased 13.7% over the first seven months of last year to \$414.5 million. The largest source of corporate income tax revenues, estimated payments, increased 6.3% to \$388.9 million in FY11.

Cigarette tax revenues decreased 1.7% during the first seven months of FY11 to \$324.7 million. However, the decline can, in part, be explained by changes in tax rates. Cigarette tax rates were increased in September of 2009, from \$1.77 per pack to \$2.52 per pack. While FY11 is the first full fiscal year at the higher rate, FY10 benefitted from cigarette floor tax revenues, due whenever there is a change in rates. Excluding the floor tax from the FY2010 collections, cigarette tax revenues are up 3.6% year-to-date, although the number of packs sold is down 7.8% for the year.

Tobacco products tax collections through January increased 9.6% during the first seven months of FY11. Like cigarettes, these rates were increased in September of 2009.

Utility tax collections decreased 0.6% during the first seven months of the current fiscal year, while insurance premium tax collections increased 1.7% from \$68.9 million in FY10 to \$70.0 million through January of FY11.

Collections of the real estate transfer fee are reflective of activity in the housing market. Last year's home sales were propped up by the federal home buyers' tax credit. Real estate transfer fees through January have decreased 24.5% from the same period last year. This is 56.7% below the year-to-date level reached in January of FY06.

The estate tax was eliminated at the end of 2007, although some revenues continue to come in due to corrected returns and audits. Estate tax collections totaled \$132,000 through January of FY11.

Comparison of Year-to-date General Purpose Revenues
(\$ Thousands)

Revenue Source	Collections to Date		
	FY10	FY11	% change
Individual Income	3,779,720	4,100,801	8.5%
Adjusted	3,916,095	4,100,801	4.7%
General Sales & Use	2,006,061	2,123,108	5.8%
Corporate Franchise	364,669	414,509	13.7%
Excise Taxes	385,947	384,005	-0.5%
Public Utility	174,000	173,007	-0.6%
Insurance	68,863	70,066	1.7%
Other	25,316	18,802	-25.7%
Total GPR	6,804,578	7,284,299	7.0%
Adjusted	6,940,952	7,284,299	4.9%

1. For more information on the Menasha Case, see LFB's [Informational Paper 6: Sales and Use Tax](#), page 12.

APPENDIX 1

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History				Forecast			
	2007	2008	2009	2010	2011	2012	2013	2014
Total Nonfarm	2,884.2	2,878.1	2,748.3	2,725.7	2,760.9	2,813.7	2,860.1	2,907.4
% Change	0.6	-0.2	-4.5	-0.8	1.3	1.9	1.6	1.7
Private Nonfarm	2,468.2	2,456.2	2,323.7	2,299.5	2,336.9	2,388.9	2,433.3	2,478.4
% Change	0.7	-0.5	-5.4	-1.0	1.6	2.2	1.9	1.9
Natural Resources & Mining	3.6	3.4	3.0	3.1	3.1	3.0	3.0	3.1
% Change	-7.2	-7.1	-11.4	3.6	-0.8	-1.9	0.2	1.4
Construction	125.9	118.4	102.1	97.7	94.3	93.8	96.3	100.4
% Change	-1.2	-6.0	-13.8	-4.3	-3.4	-0.5	2.6	4.3
Manufacturing	501.3	492.9	435.4	428.8	440.4	455.5	469.3	476.7
% Change	-0.9	-1.7	-11.7	-1.5	2.7	3.4	3.0	1.6
Trade, Transportation & Utilities	547.1	540.8	515.7	503.3	507.4	519.1	528.0	535.4
% Change	0.5	-1.1	-4.6	-2.4	0.8	2.3	1.7	1.4
Information	50.2	50.2	48.0	47.0	47.5	48.6	49.0	49.5
% Change	1.9	-0.1	-4.4	-2.1	1.1	2.5	0.7	1.0
Financial Activities	163.1	164.1	160.1	155.7	154.5	156.5	158.3	159.3
% Change	0.8	0.6	-2.4	-2.8	-0.8	1.3	1.1	0.6
Professional & Business Services	278.8	281.4	255.4	254.1	265.2	273.8	282.7	297.6
% Change	3.0	0.9	-9.2	-0.5	4.4	3.2	3.3	5.3
Education & Health Services	398.7	406.6	414.1	421.4	431.0	441.0	446.2	453.5
% Change	1.7	2.0	1.8	1.7	2.3	2.3	1.2	1.6
Leisure & Hospitality	262.0	259.4	252.0	250.7	253.2	256.0	257.7	258.5
% Change	1.0	-1.0	-2.9	-0.5	1.0	1.1	0.7	0.3
Other Services	137.6	139.0	137.8	137.8	140.4	141.6	142.8	144.6
% Change	1.2	1.0	-0.9	0.0	1.9	0.8	0.8	1.3
Government	416.0	421.9	424.7	426.2	424.0	424.7	426.7	429.0
% Change	0.2	1.4	0.7	0.4	-0.5	0.2	0.5	0.5
Federal Government	29.2	29.6	30.1	31.3	29.4	28.9	28.5	28.3
% Change	0.0	1.5	1.5	4.1	-6.0	-2.0	-1.2	-0.7
State & Local Government	386.8	392.2	394.6	394.9	394.6	395.9	398.2	400.7
% Change	0.2	1.4	0.6	0.1	-0.1	0.3	0.6	0.6

Household Survey Employment Measures

Labor Force	3,094.3	3,081.9	3,081.6	3,040.0	3,055.4	3,077.5	3,093.6	3,110.9
% Change	0.7	-0.4	0.0	-1.4	0.5	0.7	0.5	0.6
Employment	2,947.4	2,932.7	2,820.5	2,793.6	2,833.6	2,872.0	2,907.4	2,945.3
% Change	0.6	-0.5	-3.8	-1.0	1.4	1.4	1.2	1.3
Unemployment Rate (%)	4.7	4.8	8.5	8.1	7.3	6.7	6.0	5.3

APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4
Total Nonfarm	2,711.0	2,728.5	2,729.4	2,733.7	2,741.7	2,752.6	2,766.9	2,782.4
% Change	0.2	2.6	0.1	0.6	1.2	1.6	2.1	2.3
Private Nonfarm	2,285.0	2,299.2	2,306.9	2,307.0	2,316.1	2,328.5	2,344.3	2,358.7
% Change	0.4	2.5	1.3	0.0	1.6	2.2	2.7	2.5
Natural Resources & Mining	3.1	3.0	3.2	3.1	3.1	3.1	3.1	3.0
% Change	14.2	-4.3	23.9	-11.9	1.8	-3.9	-2.9	-2.2
Construction	97.0	100.7	98.8	94.3	95.4	94.4	93.9	93.7
% Change	-7.8	15.8	-7.2	-17.1	4.7	-3.8	-2.4	-0.7
Manufacturing	423.0	429.3	430.2	432.6	433.8	438.8	443.1	446.0
% Change	2.9	6.2	0.8	2.3	1.1	4.6	4.0	2.7
Trade, Transportation & Utilities	501.0	502.2	505.8	504.3	504.8	505.3	507.9	511.5
% Change	-3.6	1.0	2.8	-1.2	0.4	0.4	2.1	2.8
Information	47.0	47.1	47.0	46.7	46.8	47.2	47.7	48.2
% Change	-1.1	0.6	-0.6	-2.3	0.5	3.2	4.5	4.3
Financial Activities	156.6	156.5	155.4	154.3	154.0	154.2	154.6	155.0
% Change	-2.6	-0.3	-2.9	-2.8	-0.6	0.4	1.1	1.1
Professional & Business Services	251.8	253.2	254.7	256.6	259.3	263.7	267.4	270.2
% Change	5.1	2.4	2.4	2.9	4.4	7.0	5.7	4.3
Education & Health Services	417.7	419.9	423.1	424.8	426.9	429.1	432.3	435.6
% Change	1.8	2.2	3.1	1.6	2.0	2.1	3.1	3.1
Leisure & Hospitality	251.4	249.9	251.6	249.8	251.9	252.6	253.8	254.5
% Change	3.7	-2.4	2.7	-2.8	3.3	1.2	1.9	1.1
Other Services	136.5	137.3	137.1	140.5	140.2	140.2	140.5	140.9
% Change	-0.2	2.5	-0.6	10.3	-1.0	0.0	1.0	1.1
Government	426.0	429.4	422.6	426.8	425.6	424.1	422.6	423.7
% Change	-1.1	3.2	-6.2	4.0	-1.1	-1.4	-1.4	1.1
Federal Government	30.2	35.4	30.7	29.1	29.5	29.6	29.4	29.2
% Change	7.9	88.9	-43.5	-18.9	6.0	0.3	-1.6	-2.6
State & Local Government	395.8	394.0	391.9	397.7	396.0	394.6	393.2	394.5
% Change	-1.8	-1.8	-2.1	6.0	-1.6	-1.5	-1.4	1.4

Household Survey Employment Measures

Labor Force	3,038.9	3,048.9	3,030.7	3,041.5	3,046.5	3,051.3	3,058.3	3,065.4
% Change	0.4	1.3	-2.4	1.4	0.7	0.6	0.9	0.9
Employment	2,773.5	2,798.5	2,793.0	2,809.5	2,818.1	2,827.4	2,838.6	2,850.3
% Change	-0.2	3.7	-0.8	2.4	1.2	1.3	1.6	1.7
Unemployment Rate (%)	8.7	8.2	7.9	7.6	7.5	7.3	7.2	7.0

APPENDIX 3

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
(\$ Billions)

	History			Forecast				
	2007	2008	2009	2010	2011	2012	2013	2014
Total Personal Income	206.380	213.379	211.478	218.257	226.838	233.194	242.354	254.084
% Change	3.9	3.4	-0.9	3.2	3.9	2.8	3.9	4.8
Wages and Salaries	113.472	116.532	111.453	113.208	117.468	122.882	128.610	134.425
% Change	4.2	2.7	-4.4	1.6	3.8	4.6	4.7	4.5
Supplements to Wages and Salaries	25.804	27.106	27.441	28.337	29.314	30.587	32.055	33.663
% Change	-1.4	5.0	1.2	3.3	3.4	4.3	4.8	5.0
Proprietor's Income	14.876	13.874	11.802	13.223	14.260	14.852	15.112	15.788
% Change	-5.0	-6.7	-14.9	12.0	7.8	4.1	1.8	4.5
Property Income	36.623	38.652	36.423	36.533	37.402	38.552	40.212	41.976
% Change	7.6	5.5	-5.8	0.3	2.4	3.1	4.3	4.4
Rental Income	2.446	3.782	4.567	5.090	5.321	5.103	4.317	3.680
% Change	-4.8	54.6	20.8	11.5	4.5	-4.1	-15.4	-14.8
Personal Dividend Income	13.405	13.230	11.581	11.767	12.604	13.022	13.521	13.928
% Change	7.2	-1.3	-12.5	1.6	7.1	3.3	3.8	3
Personal Interest Income	20.772	21.640	20.275	19.677	19.477	20.426	22.373	24.368
% Change	9.5	4.2	-6.3	-3.0	-1.0	4.9	9.5	8.9
Personal Current Transfer Receipts	29.962	31.974	38.913	41.488	41.988	42.836	44.236	46.776
% Change	7.9	6.7	21.7	6.6	1.2	2.0	3.3	5.7
Residence Adjustment	3.654	3.773	3.544	3.647	3.793	3.983	4.172	4.366
% Change	7.7	3.3	-6.1	2.9	4	5	4.7	4.6
Contributions to Government Social Ins.	18.010	18.532	18.097	18.625	17.387	20.497	22.043	22.910
% Change	3.7	2.9	-2.3	2.9	-6.6	17.9	7.5	3.9

Related Income Measures

Personal Income (2005 \$) (\$ Billions)	195.503	195.659	193.561	196.403	201.569	204.018	208.390	214.132
% Change	1.2	0.1	-1.1	1.5	2.6	1.2	2.1	2.8
Per Capita Income (2005 \$)	34,901	34,768	34,230	34,560	35,285	35,529	36,110	36,920
% Change	0.6	-0.4	-1.5	1.0	2.1	0.7	1.6	2.2
Per Capita Income (\$)	36,843	37,916	37,398	38,405	39,708	40,610	41,995	43,808
% Change	3.4	2.9	-1.4	2.7	3.4	2.3	3.4	4.3
Personal Tax & Nontax Payments	24.812	25.245	20.022	19.061	20.087	21.352	22.892	23.803
% Change	6.1	1.7	-20.7	-4.8	5.4	6.3	7.2	4.0
Disposable Personal Income	181.568	188.134	191.456	199.196	206.751	211.843	219.461	230.281
% Change	3.7	3.6	1.8	4.0	3.8	2.5	3.6	4.9
GDP (Current Dollars)	238.636	246.282	244.369	252.936	263.282	272.932	285.071	299.773
% Change	4.1	3.2	-0.8	3.5	4.1	3.7	4.4	5.2
GDP (2005 \$) (\$ Billions)	225.879	228.717	224.027	229.852	236.517	242.194	249.217	257.192
% Change	1.4	1.3	-2.1	2.6	2.9	2.4	2.9	3.2

APPENDIX 4

WISCONSIN INCOME SUMMARY
 PERSONAL INCOME BY MAJOR SOURCE (\$ Billions)
 Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3
Total Personal Income	213.008	214.202	218.111	220.255	220.460	224.108	225.428	227.733
% Change	2.2	2.3	7.5	4.0	0.4	6.8	2.4	4.2
Wages and Salaries	111.237	110.766	112.910	114.171	114.983	116.042	116.475	117.949
% Change	0.4	-1.7	8.0	4.5	2.9	3.7	1.5	5.2
Supplements to Wages and Salaries	27.617	27.813	28.247	28.554	28.734	28.908	29.098	29.440
% Change	2.7	2.9	6.4	4.4	2.5	2.4	2.7	4.8
Proprietor's Income	12.065	12.521	13.141	13.426	13.804	14.111	14.199	14.288
% Change	8.6	16.0	21.3	9.0	11.7	9.2	2.5	2.5
Property Income	35.952	36.407	36.561	36.459	36.707	36.888	37.232	37.588
% Change	-0.7	5.2	1.7	-1.1	2.7	2.0	3.8	3.9
Personal Current Transfer Receipts	40.668	41.337	42.214	40.984	41.419	41.677	41.937	42.077
% Change	7.1	6.7	8.8	-11.2	4.3	2.5	2.5	1.3
Residence Adjustment	3.565	3.600	3.624	3.660	3.704	3.701	3.762	3.824
% Change	5.1	4.0	2.7	4.0	4.8	-0.3	6.7	6.8
Contributions to Government Social Ins.	18.097	18.242	18.586	18.782	18.891	17.219	17.275	17.434
% Change	0.6	3.2	7.8	4.3	2.3	-31.0	1.3	3.7

Related Income Measures

Personal Income (2005 \$) (\$ Billions)	193.059	193.147	196.695	198.246	197.526	200.128	200.718	202.063
% Change	-0.5	0.2	7.6	3.2	-1.4	5.4	1.2	2.7